# All Eyes on OPEC, For the Last Time?

*OPEC has long been perceived as the single market balancer, but their influence is increasingly tempered by other forces – Trumponomics & demand from Asia.*

Sun rises near a pump jack in the California desert.

HOUSTON, TX, USA, November 30, 2016 /EINPresswire.com/ -- When OPEC members, led by Saudi Arabia, decided in 2014 to keep oil production high despite a global glut, it sent prices into a tailspin. It's widely thought the move was intended more than anything to drive as many U.S. shale producers as possible out of business.

But the surprise was on OPEC: while American oil and gas companies have sweated out the past two years, cutting jobs and idling rigs – with a few firms leaving the market entirely -- for the most part, they have proven to be exceptionally resilient. The same spirit of innovation that led to fracking – the technique that opened the shale plays to development in the first place – helped domestic producers shave costs and improve per-rig productivity. Those achievements are reflected in numbers from the U.S. Energy Department, which suggest that in 2017 domestic crude output will reach 8.7 million barrels a day in 2017, some 100,000 barrels a day higher than the previous estimate.

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>
> *Dan K. Eberhart*

Oilfield service company [Canary]'s CEO Dan K. Eberhart said, "OPEC, on the other hand, has taken the price cuts on the chin.  Saudi Arabia has lost billions of dollars in revenue, and other members – most notably Venezuela, Iraq, and Nigeria – have encountered staggering budget issues." Eberhart continued, "By their own reckoning, as reported in the OPEC Annual Statistical Bulletin, the member nations' combined GDP is at a five-year low, dropping from $4.35 trillion in 2015 to $3.90 trillion this year."

To stanch the bleeding, at their November 30 meeting in Vienna, OPEC members finally achieved consensus about a production cut that should prop up crude prices and restore a semblance of financial health to national coffers.

No longer a single market balancer

The headline about an OPEC production cut – 1.2 million barrels per day, more than most expected but still less than the 1.5 million barrel target that some nations pushed for – sent oil futures prices up 7 percent in the first hour after the news broke.

While so-called "Trumponomics” have yet to fully play out, President-Elect Trump has said that he wants America to be energy self-sufficient, explaining that America has been “held hostage by OPEC.”

OPEC has long been perceived as the single market balancer, but their influence is increasingly tempered by other forces – perhaps most strikingly by demand from Asia.

That region is OPEC’s biggest customer, and importers have said they won’t tolerate price increases related to what they view as supply being artificially suppressed. Instead, they plan to buy more oil from non-OPEC countries.

Since 2005, China has accounted for 46 percent of global oil demand growth. The International Energy Administration (IEA) estimates that China receives about 700,000 barrels of oil per day, effectively soaking up a lot of the excess that has been keeping prices low. However, China isn’t actively using the oil today; instead, it is going into storage in the country’s strategic petroleum reserve (SPR) where it is being stockpiled against a future crisis. So while that does take oil off the market now, it’s not a signal of continuing demand growth. Outside of its SPR, in fact, China’s demand growth is expected to be just 259,000 barrels per day, despite the fact that the nation’s energy-hungry middle class is booming.

But with oil prices on the rise after the OPEC decision, China may decide that rather than pay more for imports, it will begin drawing down from its reserves, which amount to an estimated 600 million barrels. And although China’s own oil production has fallen off considerably in recent years, the nation may ramp back up and begin exporting oil itself to take advantage of rising prices.

With all eyes on OPEC, it’s important to remember that they don’t wield complete control of the market.

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About Canary, LLC

Canary, LLC, is one of the largest private wellhead service companies in North America. Canary serves its clients and the public through quality drilling and production services, local charitable endeavors, and educational campaigns concerning energy policies. Visit canaryUSA.com, fb.com/CanaryConnects, or @CanaryConnects

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